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ABSTRACT

Inner-city business development is often proposed as a solution to inner-city poverty. However, research evidence suggests that creating new jobs in the inner city is unlikely by itself to increase significantly the employment or earnings of the inner-city poor. Public subsidies for inner-city business development may be justified by greater environmental, congestion, and fiscal benefits of inner-city versus suburban business location decisions. Research suggests that some boost in inner- city business development may be provided by a combination of economic development incentives and enhanced public services. A different set of policies must be used to increase the earnings of the inner-city poor. Employment solutions to inner-city poverty should include two components: (1) creating more effective labor market intermediaries to make it easier for inner-city residents to find good jobs and for employers throughout the metropolitan area to find good inner-city workers; and (2) enhancing the job skills of the inner-city poor, particularly their "soft skills," by training programs that have closer ties to employers and incorporate subsidized employment experience. Given the magnitude of the poverty problem, any realistic policy to significantly reduce inner-city poverty through enhanced earnings will require tens of billions of dollars of annual government spending. (Contains 12 references.) (Author/KC)

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Solving the Many Problems with Inner City Jobs

Timothy J. Bartik

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Solving the Many Problems with Inner City Jobs

Comments by Timothy J. Bartik on the issue area of "Competitiveness: Economic Development and Workforce Strategies," part of the "Bridging the Divide" conference.

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October 2000

I appreciate comments by Randy Eberts and Kevin Hollenbeck on a preliminary draft of these comments. Portions of the research discussed in these comments were supported by the Russell Sage Foundation, the Rockefeller Foundation, and HUD. The opinions expressed by the author may not reflect the views of any of the research's sponsors or reviewers.

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Abstract

Inner-city business development is often proposed as a solution to inner-city poverty. However, research evidence suggests that creating new jobs in the inner city is unlikely by itself to significantly increase the employment or earnings of the inner city poor. Public subsidies for inner city business development may be justified by greater environmental, congestion, and fiscal benefits of inner city vs. suburban business location decisions. The research evidence suggests that some boost in inner city business development may be provided by a combination of economic development incentives with enhanced public services.

A different set of policies must be used to increase the earnings of the inner city poor. These employment solutions to inner city poverty should include two components; (1) creating more effective labor market intermediaries to make it easier for inner-city residents to find good jobs and for employers throughout the metropolitan area to find good inner city workers; (2) enhancing the job skills of the inner-city poor, particularly their "soft skills", by training programs that have closer ties to employers and incorporate subsidized employment experience. Given the magnitude of the poverty problem, any realistic policy to significantly reduce inner-city poverty through enhanced earnings will require tens of billions of dollars of annual government spending.

As described in the conference proceedings, a widespread perception is that U.S. metropolitan areas suffer from a mismatch problem: excessive economic development at the periphery, and underemployed labor and land in the central cities. This "spatial mismatch" causes environmental damage, congestion, and labor shortages at the periphery, and poverty and neighborhood deterioration in the central city. The solution to these problems appears to be two-fold: 1) bring more economic development to central city areas, and 2) give central-city workers better access to suburban jobs. To address these problems, the conference summary discusses regional policies, as well as initiatives of federal agencies, businesses, and community-based organizations.

Although there is truth to the "spatial mismatch" interpretation of the cental-city jobs problem, the real world is more complex. Bringing jobs to the inner city will only increase the earnings of inner-city workers by a modest amount. The problems of central-city economic development and central- city workers must be addressed separately, through quite different policies.

These problems are distinct because neighborhoods are not job markets. Most Americans do not work in the neighborhood they live in. Research suggests that relatively few of the jobs created by inner-city economic development are likely to go to inner-city residents. Rather, these jobs will go to workers living throughout the metropolitan area.

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If inner-city economic development won't help the central-city poor much, should the government encourage inner-city economic development? Yes, because business development in the central city vs. the periphery causes different community spillover effects. On the periphery, new business development causes environmental problems and congestion and may require costly infrastructure. In the center city, business development may help improve amenities and safety in inner-city neighborhoods and also the city's tax base. Private investors do not take account of these spillovers. Government can encourage business to take account of these spillovers by providing central-city business development with public subsidies.

As described at the conference, many policies have promoted central-city economic development. A recent policy is the Empowerment Zone program. More recent proposals include the Clinton Administration's New Markets Initiative, which would provide subsidies for business investment in distressed urban neighborhoods.

Research is unclear on whether such subsidies for central-city economic development are cost-effective. The potential for success is there, because research suggests that business location decisions between similar areas within a metropolitan area are quite sensitive to cost differentials (Bartik 1991, Chapter 2). On the other hand, distressed inner-city neighborhoods with high crime and polluted land are poor substitutes for suburbs with little crime and clean land.

Research on state-sponsored enterprise zones suggests that there are high costs per job created (Ladd 1994; Greenbaum 1999; Peters and Fisher 2000). Subsidies for inner-city business development may need to be accompanied by enhancements in public services, particularly to reduce crime, which, as noted at the conference, is an important business location factor. The Empowerment Zone program included federal funding for improved public services. The "New Market Initiative" focuses more on financial subsidies and may need to be accompanied by state or local efforts to provide distressed neighborhoods with improved public services.

The conference discussed encouraging central-city business development with regional policies. The political reality is that it is unlikely that suburban politicians will provide financial support for central-city economic development. There may be a few metropolitan areas where the anti-growth sentiment in the suburbs is so strong that suburban support for central-city economic development is possible. However, in most cases, public subsidies for such development will have to be provided by federal or state dollars, not by suburban governments.

If central-city economic development by itself provides few jobs for the inner-city poor, what can be done to increase the earnings of the poor? As discussed at the conference, a key role can be played by workforce development policy. Such policies must address two key problems in the low-wage labor market: 1) poor information in

the low-wage labor market, by both employers and job-seekers and 2) the lack of adequate work readiness by many inner-city residents.

In the low-wage labor markets, employees have great difficulty in judging whether job seekers have adequate job skills, particularly "soft skills" (such as the job seeker's reliability in showing up at work on time and the job seeker's ability to get along with supervisors and co-workers). Research shows that many employers are dissatisfied with the average quality of those hired (Bishop 1993), which contributes to high rates of firing in the low-wage labor market. Many job seekers do not have the information or contacts needed to find out about appropriate job openings. Many low-wage labor jobs are filled through references from current employees, which handicaps those who do not know as many employed persons (Holzer 1996).

The Workforce Investment Act, as well as the public housing and neighborhood initiatives discussed by Riccio's and Weiss's papers, try to overcome these information problems of the low-wage labor market. The Workforce Investment Act tries to improve the low-wage labor market by consolidating job training and job placement services and providing these consolidated services through "one-stop shops" at which job seekers and employers can access available services.

The Jobs-Plus Initiative described in Riccio's paper provides these workforce placement and related services through service centers located in public housing projects. Services are more

accessible and may be provided by staff with backgrounds more similar to those of public housing residents. In addition, the Jobs-Plus centers offer more services, such as job development, and case managers with lower caseloads.

Finally, the community-based organizations (CBOs)described by Weiss provide another way to deliver workforce development and placement services. CBOs may be better able than government agencies to screen low-wage workers to ensure their potential for productivity, just as CBOs involved in housing programs have done a better job than public housing authorities in screening out problem tenants.

We do not yet know how to best solve the information problems in low-wage labor markets. We should be experimenting under WIA with different ways of delivering labor market intermediary services, including community-based organizations and offices located in low-income neighborhoods.

Problems in the low-wage labor market are not all due to lack of information. Another problem is that many inner-city residents lack job skills and the support systems needed to be job ready. Training programs with close connections to employers (e.g., the Center for Employment Training) have shown greater success in increasing jobs skills and wages. The long-term skills and wages of the poor can also be increased through subsidized work experience provided by public service jobs or private employers (Bartik 2001;

Katz 1998; Ellwood and Welty 2000). The inner-city poor also need access to reliable transportation and child care.

Programs providing job skills, work experience, or support services are expensive, however. Making a significant dent in the earnings deficits of the poor will require significant public dollars. The income deficit of the poor in the United States is about $80 billion (U.S. Census Bureau 1999). Suppose we set a goal of eliminating half of this income deficit through increased earnings over the next 10 years. If we could find training and other programs with 20 percent rates of return, reaching this goal would require spending about $20 billion per year.

Dollar amounts of this magnitude for the inner-city poor are unlikely to be provided by suburban governments. Some might come from some state governments, but the bulk of the funds must come from the federal government. Projected surpluses suggest that such investments are feasible, if we have the political will.

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